



Forest Landowners OF CALIFORNIA

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California Environmental Protection Agency
California Air Resources Board
1001 I Street
Sacramento, CA 95812-2815
Re. AB 32 Sustainable Forestry Scoping Plan

Dear Chairman Nichols:

Forest Landowners of California (FLC) welcomes the opportunity to meet informally with OCC staff to discuss the AB 32 Climate Change Scoping Plan. The executive director and a director from our Board of Directors will be attending this meeting on Tuesday, 7 October 2008 from 10:30 to 12:30 at the CalEPA building in Sacramento.

California's non-industrial forest owners manage 3.2 million of the 7.4 million acres of privately owned forests in California; including the marketing and sale of carbon offsets from their forests. FLC encourages ARB to engage this group in the implementation of AB 32.

FLC supports the efforts of the Board of Forestry (BOF) to support protocols for forest sector contribution and compliance with AB 32. We encourage the integration of BOF recommendations into ARB Forest Sector Scoping.

Any regulation that prohibits conversion of forestland to other uses and subsequently decreases the value of forestland is of concern to forest owners. If the ARB adopts such a regulation, financial consideration for damages must be funded by the program. Rather than regulations, FLC prefers economic incentives that encourage perpetual forest use through favorable forestry regulations, competitive markets for forest products, and government relief for the costs of forest ownership such as depreciation of forestland, property tax relief, timber tax relief, and forest improvements.

The ownership of carbon offsets grown by private forest owners is an issue that has not been addressed in the rule making process by the ARB or the BOF. Private forest owners assert that the ownership and right to sell carbon offsets grown by private forest owners is a private property right of the forest owner that is protected by the California constitution.

The 5 MMT target goal for the forest sector can be achieved by public forests under management by Federal, State, and Local governments. The California Forest Practice Act assures sustainable forests on private forestlands. The ARB should allow all private

forest owners to voluntarily participate in the offset carbon markets and sell all the carbon they can sequester.

The ARB and BOF intend to use the CFIP program to implement strategies under the plan. The CFIP program is notoriously under-funded. It is an inefficient method to implement forest improvements. FLC supports regulations that dedicate a portion of cap-and-trade penalties be used for carbon-offset projects. The CFIP needs to be overhauled to assure more money goes into projects and less money goes into overhead and administration of the program.

When implementing the fuels management strategy under the forest sector plan, FLC requests that these reductions be split equally between the energy sector and the forest sector. Most of the cost of fuel management activities will be borne by the forest landowner and these costs must be accurately reflected in prices set by the market.

Private forest owners want to sell all the carbon they can sequester. Private forest landowners will invest this revenue directly into forest improvements, other investments, and the general economy; thereby mitigating localized impacts. This potential new offset market provides economic incentives for forest owners to optimize forest health, coverage, growth, and carbon sequestration potential. This request supports the ARB objectives to offset the negative economic impacts of the ARB cap-and-trade scoping plan.

Forest and cap-and-trade protocols must include provisions that protect the right to practice forestry, including: site improvements, brush control, thinning, fire fuel management, and timber harvest.

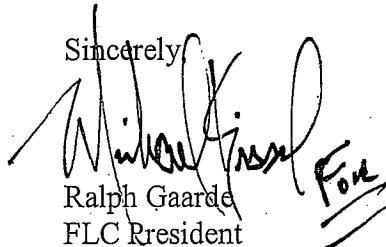
Forest owners do not support the 10% cap per individual firm on carbon offsets sequestered by forests or any other proven technology that sequesters carbon. The market will establish a carbon offset cap without government intervention. The secondary benefits from these forest investments include: cleaner air, cleaner water, improved wildlife habitat, and an improved natural environment. Forest offsets must be derived from lands physically located within geopolitical boundaries of the Western Climate Initiative Partners. The introduction of carbon offsets from external supplies outside the initiative partners, especially those with lower environmental and regulatory standards creates an uneven playing field for carbon offset producers located within the partnership. Allowing forest offsets from Mexico, Latin America, or any third world nation should not be considered. This would result in an unacceptable economic drain on the already stressed economies of the partnership.

A hypothetical forest landowner with 1100 acres of fast growing 15-year old trees could sequester 10,000 metric tons of carbon per year on his property. One metric ton of carbon trades at about \$4.00 on the CCX, resulting in a market value of \$40,000 for the landowner's product. Expenses to bring this carbon to market run about \$30,000 for verification, marketing, broker, and CCX exchange fees, leaving just \$10,000 of income

to the owner. Most owners are unwilling to accept \$10,000 for their carbon because it does not adequately compensate them for risks, replacement liability, insurance, blemish and lien on title, risk of unstable regulatory environment and the carbon market in general, and the administrative costs of bringing this product to market. While ARB has a role in ensuring market security and enforceability, it must realize that the high costs of these activities must be balanced with what the market is willing to pay and what forest landowners are willing to accept for each traded carbon credit.

FLC appreciates your invitation to participate in this informal workshop. We hope that the ARB will benefit as much as we will through the development of fair and reasonable AB 32 regulations and protocols.

Sincerely,



Ralph Gaarde
FLC Resident